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SEP 07 2007
MSHDA-Legal

September 4, 2007

Ms. Mary Levine
Acting Director of Legal Affairs
Michigan State Housing and Development Authority
P.O. Box 30044
Lansing, MI 48909

Re: Proposed 2008-09 QAP

Dear Ms. Levine:

As a wholly-owned subsidiary of National City, Red Capital has a particular interest in supporting affordable housing in Michigan, a state that our parent company has a significant presence in. It is in that spirit that I wish to offer comments on the 2008-09 QAP.

It is important to note that tax credit investors are risk adverse and are generally not influenced by public policy considerations. At current market tax credit yields, investors are not compensated to take undue risks. What keeps investor capital in the market is a healthy balance between private market discipline as evidenced by the underwriting criteria of tax credit investors and the public policy goals of the state as reflected in the QAP. If the equation is skewed too far away from prudent underwriting standards, there can be no assurance that the supply of capital flowing into tax credits projects will not be disrupted and/or the value of received for the tax credits is maximized.

In many markets in Michigan, investors must underwrite around economic concerns such as limited job growth. In areas of perceived market risk, there is little additional room for development or operating risk. Several of the holdbacks that are set forth in the proposed QAP suggest areas of possible operating and development risk that may deter a potential tax credit investor from funding a project.

As an example, supportive housing and housing for formerly homeless, typically rely on funding from outside of the project to pay for essential services to the resident population. A potential investor must be comfortable that funding sources remain available to pay for services for the entire compliance period.

More broadly, while it may make sense from a public policy perspective to support the projects of Community Development Corporations, these entities typically have a wide range of development experience. Prospective investors must be convinced that the Community Development Corporation, as with any developer, has the experience and the financial capacity to complete a very complex undertaking.

Michigan has been a great state for Red Capital to invest in because it has a large community of non-profit and for-profit developers who regularly participate in the tax credit program, and collaborate to make the program better. While there is always a desire to improve the program with each new QAP, MSHDA should be careful not to change the program so radically so as to endanger the supply of private capital that has consistently supported the development, rehabilitation, and preservation of housing in the state.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce R. Sorota". The signature is fluid and cursive, with a large initial "B" and a stylized "S" at the end.

Bruce R. Sorota
Director